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MANUFACTURERS HANOVER

# Financial Digest

Volume XXVIII, Number 1 Monday, January 14, 1991

Analysis of Business Trends Plus Selected Financial Indicators

## The Recession Isn't Everywhere

With the drumbeat of negative economic developments growing louder every day, even a seasoned observer of the business environment should be excused for acquiring a pervasively pessimistic posture. Rising joblessness, mounting business failures, strains in the financial system and widening Federal and state budget deficits, not to mention oil supply and price uncertainties, have already cut deeply into the household and business psyche, eroding confidence and sidelining an ever-growing number of investment spending decisions.

Nonetheless, an overly-pessimistic view is also a myopic one, for in a continental-sized economy as diverse as this one, even a recession is not all-encompassing. Sizable industry- and regional-specific pockets of economic expansion exist, ranging from buoyant export-oriented industries in the Great Lakes region, to rebounding oil exploration activity in the Southwest, to booming health care services everywhere; these factors should blunt the severity and shorten the duration of the current business downturn.

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To be sure, a blizzard of dismal economic statistics continues to descend upon the nation. In recent weeks, it has been reported that factory orders suffered a huge plunge in November, construction activity remained anemic, Holiday retail sales were generally disappointing, business bankruptcies were soaring and, perhaps most worrisome, that private sector payroll employment continued to decline. Although the number of jobs lost in December was somewhat smaller than the more pessimistic pundits anticipated, the weakness in the job market last month was broad-based, affecting such sectors as manufacturing, construction and retailing. And, while the length of the workweek popped a bit higher in December, it was too little too late to reverse the steep slide which occurred earlier in the quarter. The plunge in average hours worked is one of the most unambiguous signals yet that the inflation-adjusted gross national product is contracting, probably at a 2½ percent annualized clip or more, in the fourth quarter.

While the overall economic picture has unmistakably darkened, all too often the broad-brush economic statistics released by Washington mask as much as they reveal. And, the current situation is no exception. Not all industries and regions are in the grip of recession, nor are they likely to be. Take, for example, the well-publicized difficulties of domestic manufacturing. Over the past year, industrial output has contracted, nearly 600,000 factory jobs have been shed, profits have evaporated and profit margins have sunk to recession lows. The difficulties of the automobile, high-technology and defense industries dominate the news, being carefully detailed almost daily.

### Industry Strong Points

Hefty output declines in these industries have, however, been offset to a large extent by output gains in a variety of other industries. In general, companies servicing faster-expanding overseas markets have been able to sidestep the current business slowdown, and expectations abound that those involved in energy extraction and exploration will, too. With order books bulging, output of commercial jet aircraft has been booming, as has production of iron and steel, telecommunications equipment, and paper products. Nor does the pronounced dichotomy between strong and weak industries end with manufacturing; it extends into retailing and other service industries as well.

Although many major general merchandise retailers expressed disappointment with Holiday sales volumes, discounters did not. As consumers turned cautious, they pinched their pennies a bit tighter, purchasing "down" this Christmas season—much to the delight of those merchants selling less expensive merchandise. And while such service industries as commercial banking, real estate and insurance continue to shed workers, the health care industry is booming. It added more than 600,000 workers in 1990, accounting for nearly 60 percent of the 1.1 million private sector, service-producing jobs created last year.

The unevenness of the impact of the economy's downturn across industries is mirrored regionally. With sizable concentrations of high-technology and defense-related companies, New England finds itself at the epicenter of the cur-

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rent recession, with payroll employment tumbling, initial unemployment claims soaring, retail sales easing and housing starts plunging. Similarly, the Middle Atlantic region, especially the financial services industry-dependent New York City metropolitan area, and large swaths of California, principally those dependent upon defense and associated high-technology spending, are experiencing their share of business woes. This is perhaps best illustrated by the drop of residential property values and the unraveling of new home construction in each area. In the Middle Atlantic states, housing starts have tumbled by a third over the past year and, in California, they are off by about the same proportion.

### Regional Bright Spots

In contrast, those regions and metropolitan areas whose local economies are tied to exports, energy or agriculture have either remained healthy or have seen their prospects brighten. The export-oriented Great Lakes region is enjoying increases in employment, retail sales and housing starts. Even within hard-pressed regions, exporting communities are enjoying brisk growth. The greater Rochester, New York area, for example, has a jobless rate

## Short Term Paper Outstanding

(Millions of Dollars)

| Time Deposits $100,000 or more Weekly Reporting Banks | Latest Week | Change Since Week Ago | Change Since Year Ago |
|---|---|---|---|
| Nationwide (12/26/90) | 201,085 | - 1,084 | - 13,588 |
| New York City (1/2/91) | 35,180 | + 532 | - 6,156 |
| **Commercial Paper** (1/2/91) | 557,024 | - 6,769 | + 27,669 |

## Bank Loans

(Millions of Dollars)

**Commercial and Industrial Loans**

| Weekly Reporting Large Commercial Banks | Latest Week | Change Since Week Ago | Change Since Year Ago |
|---|---|---|---|
| Nationwide (12/26/90) | 316,853 | + 770 | - 486 |
| New York City (1/2/91) | 56,977 | - 81 | + 39 |

**Total Loans and Leases Gross Adjusted**

| | Latest Week | Change Since Week Ago | Change Since Year Ago |
|---|---|---|---|
| Nationwide (12/26/90) | 1,023,912 | - 986 | + 30,552 |
| New York City (1/2/91) | 183,455 | + 5,120 | + 4,108 |

## Financial Markets

| | Friday 1/11/91 | Change Since Week Ago | Change Since Year Ago |
|---|---|---|---|
| **U.S. Governments, Closing Yields:** | | | |
| 90-Day Bills† | 6.34% | - .36 | - 1.40 |
| 180-Day Bills† | 6.54 | - .27 | - 1.26 |
| Longest Bills† | 6.61 | - .19 | - 1.14 |
| **Recent Issues:** | | | |
| 7¼s 12/31/92 | 7.11 | - .04 | |
| 7⅞s 2/15/96 | 7.78 | + .12 | |
| 8⅛s 11/15/00 | 8.16 | + .15 | |
| 8¼s 8/15/20 | 8.37 | + .17 | |
| **Municipals:** | | | |
| Bond Buyer—20 Bond Index* (1/10/91) | 7.15% | + .06 | + .12 |
| Blue List Total ($ Million) | $1,355 | + $ 66 | +$ 87 |
| 30-Day Visible Supply ($ Million) | $1,903 | + $ 75 | +$ 896 |
| Total | $3,258 | + $141 | +$ 983 |
| **Corporates:** | | | |
| Moody's Aa Composite (1/10/91) | 9.41% | + .11 | + .21 |
| 30-Day Visible Supply ($ Million) | $ 525 | + $225 | - $2,300 |
| **Stocks: (1:30 p.m.)** | | | |
| Dow-Jones Averages: | | | |
| Industrials | 2,492.34 | - 73.75 | - 196.87 |
| Transportation | 905.46 | - 3.65 | - 235.19 |
| Utilities | 204.23 | - 3.71 | - 16.47 |
| 65 Stocks | 887.20 | - 18.40 | - 115.11 |
| **N.Y.S.E. Composite Index** | 172.29 | - 3.66 | - 16.03 |
| **N.Y.S.E. Avg. Daily Vol. for Week (000's)** | 147,829 | + 17,159 | - 14,769 |

*34% Taxable equivalent 10.83%.

† Bond equivalent.

## International Rates

| EURODOLLAR DEPOSIT RATES (bid) | Friday 1/11/91 | Week Ago |
|---|---|---|
| Overnight | 6.94% | 7.31% |
| 1 month | 7.06 | 7.31 |
| 3 month | 7.25 | 7.31 |
| 6 month | 7.25 | 7.31 |
| 1 year | 7.31 | 7.31 |

**FOREIGN EXCHANGE SPOT RATES**

| New York Opening (1/11/91) | Currency Per U.S. $ | Week Ago |
|---|---|---|
| Belgium | 31.66 | 30.83 |
| Canada | 1.1547 | 1.1540 |
| France | 5.2130 | 5.0785 |
| Germany | 1.5365 | 1.4930 |
| Italy | 1156.00 | 1123.00 |
| Japan | 134.30 | 132.05 |
| Mexico | 2954.60 | 2951.40 |
| Netherlands | 1.7310 | 1.6835 |
| South Korea | 704.18 | 703.19 |
| Switzerland | 1.2870 | 1.2755 |
| Taiwan | 26.70 | 26.63 |
| U.K.* | 1.9035 | 1.9450 |

*U.S. $ per U.K. pound

| MH TRADE-WEIGHTED DOLLAR (1/11/91) (Adjusted for Inflation) | Change Since Week Ago | Change Since 2/27/85 |
|---|---|---|
| | +1.9% | -7.8% |

in the three percent neighborhood, half the national average, and many local firms are adding, rather than trimming staff.

The Farm Belt, too, continues to rebound strongly from its mid-1980s downturn. Farm land values, retail sales and incomes are rising, while unemployment rates are either falling, as in Nebraska where it has dipped to two percent, or holding steady. Finally, higher energy prices bode well for the Oil Patch—they already have produced an increase in the number of working oil and gas drilling rigs, and there are some signs that the prolonged collapse of real estate in the region has ended.

At this juncture, the national recession has yet to affect everywhere or everyone. Large pockets of economic expansion persist, both within industries and regions. Not only is this a positive sign for the economy's prognosis, but it also helps explain something else: Why, in the midst of recession, there is a five-month waiting list for theater tickets to popular Broadway shows, a scramble for reservations at some of the nation's priciest restaurants—and no-vacancy signs at many of winter's most popular and expensive vacation destinations. ■

## Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

| | Week Ending 1/2/91 | $ Change Since Week Ago | $ Change Since Year Ago |
|---|---|---|---|
| Reserve Bank Credit | | | |
| U.S. Gov'ts and Agencies Owned Outright & RPs | 252.948 | + 4.110 | +17.136 |
| Loans to Depository Inst. | .267 | - .586 | - .257 |
| Float | 4.689 | + 3.357 | + 3.542 |
| Total Reserve Bank Credit | 298.224 | + 6.831 | +21.781 |
| Treasury Deposits with Federal Reserve Banks | 7.987 | + 1.177 | + 1.705 |
| Currency in Circulation | 286.860 | + 1.932 | +26.292 |
| Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week) | 249.134 | - 1.550 | +21.033 |
| Member Bank Reserves: | 1/2/91 | | |
| Total Reserves Held | 66.295 | + 3.786 | + 2.586 |
| Excess (Deficiency) | 3.472 | + 1.552 | + 2.355 |
| Net Free Reserves | 3.198 | + 1.760 | + 2.401 |

| Monetary Aggregates † | | ‡ % Change Since 3 Months Ago* | ‡ % Change Since Year Ago |
|---|---|---|---|
| M1 (12/31/90) | 832.2 | + 1.9 | + 3.9 |
| M2 (12/31/90) | 3,325.0 | + 0.3 | + 3.1 |
| M3 (12/31/90) | 4,084.2 | - 0.4 | + 1.1 |
| Domestic Nonfinancial Debt (3rd Q'90) | 10,309.3 | + 7.0 | + 7.5 |

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

## New York Money Market

| Offering Rates 1/2/91 | 3 Months | 6 Months | 1 Year |
|---|---|---|---|
| ‡ U.S. Treasury Bills | 6.20% | 6.30% | 6.23% |
| * Federal Agencies | 7.00 | 7.00 | 7.05 |
| * Municipal Notes–High Grade (34% Taxable Equivalent) | 7.58 | 7.95 | 7.95 |
| Negotiable Time CDs | | | |
| Manufacturers Hanover | Rates By Arrangement | | |
| * Secondary Market–Prime | 7.20 | 7.30 | 7.30 |

| ‡ Finance Company Paper–Prime | | ‡* Bankers' Acceptances | |
|---|---|---|---|
| 5- 14 days | 6.43% | Feb. | 7.00% |
| 15- 29 days | 6.75 | Mar. | 7.00 |
| 30- 59 days | 6.89 | Apr. | 7.00 |
| 60- 89 days | 6.90 | May | 7.00 |
| 90-179 days | 6.72 | Jun. | 7.00 |
| 180-239 days | 6.60 | Jul. | 7.00 |
| 240-270 days | 6.60 | | |

| ‡ Industrial Paper–Prime | | | |
|---|---|---|---|
| 30- 89 days | 6.96% | †Federal Funds Effective Rate | 6.75% |
| 90-120 days | 7.00 | | |

‡ Discount basis. *Subject to availability. † Estimated.

## Selected Business Indicators

(All Dollar Figures in Billions)

| | Latest Period or End of Period | | Previous Period | Year Ago Period |
|---|---|---|---|---|
| Gross National Product (Current Dollars)* | 3rd Q'90 | $ 5,515 | $ 5,443 | $ 5,239 |
| Gross National Product (1982 Dollars)* | 3rd Q'90 | $ 4,170 | $ 4,155 | $ 4,130 |
| Percent Change, Annual Rate | 3rd Q'90 | 1.4 | 0.4 | 1.7 |
| Change in Consumer Prices* | Nov '90 | 3.6% | 7.2% | 3.6% |
| Change in MH Cost of Living Index* | Nov '90 | 4.8% | 3.6% | 4.8% |
| Change in Producer Prices* | Dec '90n | - 7.2% | 6.0% | 7.2% |
| Civilian Employment (Thousands of Persons) † | Dec '90n | 117,574 | 117,386r | 117,957r |
| Unemployment as % of Civilian Labor Force † | Dec '90n | 6.1% | 5.9% | 5.3% |
| Personal Income* | Nov '90 | $ 4,710 | $ 4,697 | $ 4,470 |
| Leading Indicators Composite Index (1967=100) † | Nov '90 | 139.7 | 141.4 | 144.6 |
| Industrial Production Index (1977=100) † | Nov '90 | 107.5 | 109.4 | 108.1 |
| Net Change in Consumer Installment Credit † | Nov '90n | $ 1.72 | $ 1.37 | $ 3.77 |
| U.S. Merchandise Trade Balance † | Oct '90 | - $ 11.61 | - $ 9.33 | - $ 10.15 |
| Plant and Equipment Expenditures* | 1st Q'91 | $ 557.9(a) | $ 532.8(a) | $ 532.4 |
| Private Housing Starts (Thousands of Units)* | Nov '90 | 1,129 | 1,033 | 1,347 |
| New Construction Expenditures* | Nov '90n | $ 422.4 | $ 425.1r | $ 433.4 |
| Total Business Inventories † | Oct '90 | $ 813.9 | $ 810.8 | $ 794.0 |
| Total Business Sales † | Oct '90 | $ 551.9 | $ 547.2 | $ 526.1 |

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

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